

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /100 W

----- 083099

R 111010Z AUG 76

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHC 4774

INFO AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

C O N F I D E N T I A L ABU DHABI 2176

E.O. 11652: N/A

TAGS : ENRG, TC

SUBJECT : ABU DHABI PETROLEUM DEVELOPMENTS

1. SUMMARY: WHILE THERE ARE STILL IMPORTANT DIFFERENCES BETWEEN GOVERNMENT AND FOREIGN OIL INDUSTRY INTERESTS IN ABU DHABI, MOST PROBLEMS ARE GRADUALLY BEING RESOLVED IN AN OVERALL ATMOSPHERE THAT IS NOW MUCH IMPROVED OVER PERIOD OF CONFRONTATIONS OF EIGHTEEN MONTHS AGO.

2. ON SHORE LPG PROJECT. TWO SIDES ARE NEGOTIATING INTENSIVELY ON DETAILED AGREEMENTS COVERING FINANCIAL, LEGAL AND TECHNICAL ASPECTS OF PROJECT. ON FINANCING, MAIN STUMBLING BLOCK ARE TERMS UNDER WHICH GOVERNMENT IS TO PROVIDE BRIDGING LOANS SO THAT PROJECT CAN GET UNDERWAY WHILE LONG-TERM FINANCING BEING ARRANGED. ON TECHNICAL SIDE, ALL PROBLEMS SEEM TO BE RESOLVED EXCEPT QUESTION OF LOADING FACILITY AT RUWEIS, WHICH ADNOC WANTS REDESIGNED TO CONFORM WITH MASTER PLAN FOR THIS PORT BEING PREPARED BY ARTHUR D. LITTLE, WHEEAS INDUSTRY PARTNERS ARE SAYING THIS WILL INCREASE COSTS AND WASTE TIME. INDUSTRY NEGOTIATORS ARE TRYING TO KEEP

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FOREIGN MINISTER SUWAIDI ENGAGED, APPARENTLY WITH

SOME SUCCESS, TO OVERCOME HARD-LINING ALGERIAN LAWYERS IN ADNOC. ORIGINAL TARGET DATE OF SEPTEMBER FOR CONCLUSION OF DETAILED AGREEMENTS NOW RECOGNIZED AS UNREADLISTIC, BUT BOTH SIDES EXPECT THAT BY END OF YEAR PROJECT WILL BE UNDERWAY.

3. ON-SHORE OIL. OF ABU DHABI'S TWO MAJOR OIL COMPANIES, ADPC HAS MOST SATISFACTORY RELATIONSHIP WITH GOVERNMENT AT PRESENT. PRODUCTION HAS BEEN RUNNING AT MAXIMUM ALLOWABLE OF ONE MBD. LAST YEAR'S CHRONIC ARGUMENTS BETWEEN INDUSTRY PARTNERS AND ADNOC OVER PACE OF DEVELOPMENT PROGRAM HAVE GIVEN WAY TO GREATER DEGREE OF MEETING OF MINDS THIS YEAR. DEVELOPMENT BUDGET HAS BEEN FIXED AT 55 MILLION STERLING THIS YEAR, BUT OVER AND ABOVE THIS ADPC IS DOING SOME DRILLING FOR ADNOC'S ACCOUNT ALONE TO DEFINE SMALL ON-SHORE FIELDS WHICH ADPC INDUSTRY PARTNERS DO NOT FIND ATTRACTIVE ENOUGH TO DEVELOP-. ADPC IS NOW PREPARING MULTI-YEAR DEVELOPMENT PLAN WHICH CALLS FOR PRODUCTION TO RISE TO 1.4 MBD BY END OF 1978. THIS WOULD INCLUDE SOME 200,000 B/D FROM NEW SHAH FIELD 60 KILOMETERS SOUTHWEST OF ASAB. ADPC MANAGERS ARE OPTIMISTIC ADNOC WILL AGREE TO THIS INCREASED LEVEL OF PRODUCTION WHICH IN ANY CASE ONLY SLIGHTLY MORE THAN PRESENT ADPC CAPACITY OF 1.28 MBD.

4. ADMA. THERE IS STILL NO "SETTLEMENT" BETWEEN ADMA AND GOVERNMENT AND STILL NO DEVELOPMENT BUDGET FOR THIS YEAR, BUT COMPANY CONTINUES TO PRODUCE OIL AT ITS ALLOWABLE OF 450,000 B/D UNDER WHAT IT REGARDS AS EXISTING UNSATISFACTORY TERMS. WITH RESPECT TO PRODUCTION ALLOWABLE, ADNOC WILL NOW HAVE ITS HAND FORCED BY COMPLETION OF DAS ISLAND LNG PLANT, WHICH WAS PLANNED ON BASIS OFF-SHORE PRODUCTION OF 750,000 B/D. WATER INJECTION SCHEME AT UM SHAI F FIELD IS BEING RUSHED TO COMPLETION SO THAT PRODUCTION FROM THIS FIELD, NOW RUNNING AT 200,000 B/D CAN RISE TO 330,000 B/D BY END OF YEAR WHEN LNG PLANT BEINGS PRODUCTION. EVEN THIS WILL NOT BE ENOUGH -- AD/GAS LIQUIFICATION CO. HAS ASKED THAT PRODUCTION FROM UM

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SHAI F BE RAISED BY AT LEAST ANOTHER 50,000 B/D AS SOON AS POSSIBLE. RISE IN PRODUCTION WILL HELP ADMA'S PROFIT -SQUEEZED INDUSTRY OWNERS SLIGHTLY, BUT COMPANIES WILL STILL BE SEEKING SPECIAL MEASURES TO INDUCE THEM TO COME UP WITH THEIR SHARE OF ADMA'S VERY EXPENSIVE DEVELOPMENT COSTS. OF THE ALTERNATIVES SUGGESTED BY INDUSTRY OWNERS, GOVERNMENT CHOSE IDEA OF LOAN TO OWNER COMPANIES (RATHER THAN

LOWER TAX OR ROYALTY RATE) BUT ALSO PROPOSED THAT COMPANIES PAY INTEREST ON LOAN, WHICH COMPANIES ARE UNWILLING TO DO.

5. SATH RASBOUT FIELD. ADNOC RECENTLY SIGNED A SERVICE CONTRACT WITH CFP TO DEVELOP A NEW FIELD, CALLED SATH RASBOUT (LOCATED AT ABOUT 5310E2440N). THIS FIELD WAS RELINQUISHED BY ADMA WHICH BELIEVES IT CAN BE DEVELOPED TO ABOUT 80,000 B/D. CFP TOGETHER WITH SOME US INDEPENDENTS APPROACHED GOVERNMENT WITH OFFER TO DEVELOP IT ON CONCESSION BASIS, BUT ADNOC DECIDED IT WISHED TO PROCEED ON 100 PERCENT GOVERNMENT OWNED BASIS. THIS IS FIRST ABOUT DHABI FIELD TO BE DEVELOPED ON SERVICE-CONTRACT BASIS AND WILL PROVE TO BE INTERESTING EXPERIMENT.

6. EFFECT OF ARAMCO SETTLEMENT. WE ASKED ABU DHABI PETROLEUM DEPT. USECY ISMAIL WHAT HE THOUGHT EFFECT OF LONG-AWAITED ANNOUNCEMENT OF TERMS OF ARAMCO SETTLEMENT WOULD HAVE ON ADG OIL POLICIES. HE SAID HE DID NOT BELIEVE IT WOULD ALTER ABU DHABI'S DECISION TO KEEP INDUSTRY FIRMS AS PARTNERS FOR FORSEEABLE FUTURE, BUT HE THOUGHT ARAMCO SETTLEMENT WOULD PROVE TO BE REFERENCE POINT FOR FUTURE DEALS HERE AS WELL AS FOR OTHER OPEC PRODUCERS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, INDUSTRIAL DEVELOPMENT
Control Number: n/a
Copy: SINGLE
Draft Date: 11 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ABUDH02176
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DG ALTERED
Executive Order: GS
Errors: N/A
Film Number: D760308-1134
From: ABU DHABI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760866/aaaacfpd.tel
Line Count: 141
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUN 2004 by BoyleJA>; APPROVED <16 JUN 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ABU DHABI PETROLEUM DEVELOPMENTS
TAGS: ENRG, TC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006